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Indiana Southwestern Railway Co.
1318 South Johanson Road, Peoria, Illinois 61607, (309) 697-1400

August 2, 2007

Honorable Congressman Brad Ellsworth of Indiana
Honorable Senator Richard Lugar of Indiana
Honorable Senator Evan Bayh of Indiana
Honorable Senator Richard Durbin of Illinois
Honorable Senator Amy Klobuchar of Minnesota
Honorable Congresswoman Julia Carson of Indiana
Honorable Congressman Timothy Johnson of Illinois
Honorable Congressman Ray LaHood of Illinois
Honorable Indiana Governor Mitch Daniels
Honorable Congressman James Oberstar, Chairman House Transportation and
Infrastructure Committee

**Re: STB Finance Docket No. 34608 Indiana Southwestern Railway Co. – Mid-
America Locomotive & Car Repair, Incorporated**

Dear Elected Representatives:

I am writing to respond to the unfounded letter sent to you by Mid-America Locomotive & Car Repair ("MALX"), dated July 23, 2007. It is obvious that MALX is upset with the Surface Transportation Board's ("STB") ruling dismissing their complaint and directing them to file a rate complaint, but rather than follow that advice, MALX has decided to pursue a course of character assassination against both the STB and Pioneer Railcorp. This is unfortunate. Indeed, contrary to MALX's false assertions, the STB has done nothing but follow the law, and as for Pioneer Railcorp and its subsidiary railroads, they have good working relationships with the vast majority of their customers, provide excellent service, reliable equipment, and at competitive rates. Obviously not every customer is capable of always being satisfied, which is the group MALX falls into, but Pioneer and its subsidiaries work hard everyday to ensure customer satisfaction.

MALX's primary complaint involves the charges assessed by Pioneer's Indiana Southwestern Railway Company ("ISW") for the movement of locomotives and railcars to and from MALX's repair facility. While MALX claims that ISW's rates are discriminatory and unreasonable, they are not. All Pioneer subsidiary railroads have identical charges for moving locomotives and passenger railcars, and while comparable rates charged by other railroads for the same switching services desired by MALX vary

around the country based upon the cost and market structures involved, I can assure you that our rates are well within the acceptable norm.

In fact, when ISW purchased the track in Evansville in 2000, the same standard charges that we are assessing today were in effect for MALX, and these standard rates have not been increased since. What has caused the problem is the fact that in July of 2000, in an effort to work with MALX, ISW actually lowered its rates below the standard charges ISW did so based upon MALX's promises that such lower rates would bring significant increases in traffic volume. In November 2004, after no additional volumes of traffic had been realized, the rates were returned to the standard rate – the same standard rate that applied in 2000 and applies to all other Pioneer Railcorp subsidiary railroads. It is this reimposition of ISW's standard rates that has so incensed MALX. With costs actually higher now than in 2000 and with no prospect for higher revenues from increased traffic, ISW would have been fully justified in imposing even higher rates, but chose to impose its standard rates. Apparently MALX is under the belief that they alone should be allowed to have lower rates than any other Pioneer customer. In fact, I am not aware of any other complaint regarding these charges from any other Pioneer Railcorp subsidiary railroad customer.

Regardless of MALX's failure to abide by its 2004 commitment to increase traffic, in an attempt to resolve all outstanding issues between MALX, Ohio Valley Railroad ("OVR")(a MALX affiliated company),¹ and ISW, ISW, in September 2005, again offered significantly reduced rates (see attached) in exchange for certain commitments from MALX and OVR, including the dismissal of any STB complaints filed against ISW. There was even an STB sponsored informal mediation in an effort to resolve our differences. Things appeared positive after that meeting because a couple of months after the meeting, Mr. Bill Gray, President of OVR, called our Marketing Director and instructed her to put the lower rates into place. Yet, when Mr. Gray was reminded that in exchange for such lower rates, the STB proceeding involving this issue needed to be terminated and certain other actions needed to be taken, Mr. Gray took no action to complete the settlement or to terminate the proceeding before the STB. As a result, the offered contract rates (which were lower than the standard rates) never became effective and the standard rates remained.

¹ OVR was created in an attempt to create a railroad that would operate over the MALX yard and then somehow bypass the connection with ISW to connect directly with CSX; thereby eliminating ISW from the routing. As ISW actually owns all of the tracks connecting with CSX and OVR was not willing to pay for operating over ISW's tracks so as to connect with CSX, their efforts to cut-out ISW from the routing failed. As a result, today, ISW actually interchanges traffic that is to/from the MALX facility to OVR, which is the directly serving carrier. In actuality, however, this "interchange" with OVR only occurs on paper as OVR doesn't actually physically handle MALX traffic. To our knowledge OVR has no employees, no equipment, and performs no services other than a paper interchange. ISW simply places or picks-up cars or locomotives on OVR's tracks, and it appears that MALX is the entity that actually then switches and moves those cars and locomotives to the MALX facility.

In spite of MALX's unjustified public attack on the character of our Company and its employees, I remain committed to resolving all issues amicably. If MALX is prepared to fulfill its various promises and commitments, I remain willing to negotiate a reasonable price for our services to MALX. In fact, prior to finding out about MALX's July 23 letter, I was in communication with Bill Gray, President of OVR, and expressed my desire to work towards settling all of our disputes (see attached reply from Mr Gray).

As for MALX's attack on the STB, it is my opinion that the STB does an excellent job with the task it has been assigned and the resources it is allocated. Its decision to dismiss OVR's and MALX's complaint was in full compliance with the law. Indeed, the STB even attempted to help OVR and MALX by instructing them to proceed under the proper complaint process by filing a rate complaint, but rather than be grateful for this direction, they have launched an unjustified attack against the STB and the rail industry. I can assure you that the STB is following the law and that any attempt to change that law by re-regulating the rail industry would have serious adverse impacts on the efficient transportation of goods by rail. .

Thank you for your time in allowing us to address these concerns. I would happy to discuss this situation personally with any of you at your convenience.

Respectfully,

A handwritten signature in black ink, appearing to read "J. Michael Carr". The signature is fluid and cursive, with the first name "J." and last name "Carr" being more distinct than the middle name "Michael".

J. Michael Carr
President

Cc: Metropolitan Evansville Chamber

ISW

Intermediate Switch Rates Under contract with OVR

(OVR is responsible for payment to ISW-
payment to be made within 15 days
of receipt of billing from ISW)

EMPTY RAIL CARS

1 – 2	\$125.00
3 – 5	\$100.00
6+	\$ 85.00

ISW's maximum liability for loss and damage is \$100 per empty rail car.

LOADED RAIL CARS

\$150.00

ISW'S maximum liability for loss and damage is \$100 per loaded rail car.

PASSENGER CARS/LOCOMOTIVES

1 – 2	\$750.00
3 – 5	\$625.00
6+	\$550.00

ISW's maximum liability for loss and damage is \$100 per passenger car or locomotive.

NOTE: Rates apply in each direction on all movements, loaded or empty. Such charge(s) will be assessed to the Ohio Valley Railroad (OVR).

OHIO VALLEY RAILROAD COMPANY

1601 WEST ALLENS LANE, EVANSVILLE, INDIANA 47710

TELEPHONE 412 736 5359

July 24, 2007

Mr. J Michael Carr, President
Indiana Southwestern Railway
1318 S. Johanson Rd.
Peoria, IL 61607

Dear Mike,

Thank you for quickly addressing the issue of the three SHPX cars which were incorrectly placed on OVR tracks. These cars were removed on the 23rd after we spoke

As we discussed on the call I would like to enter into dialogue with you about the Evansville situation. Clearly neither of us are benefiting from the current litigious situation (even though our lawyers may see it differently). Pragmatically this isn't the most productive use of our time and resources. The continuing stalemate denies both of us revenue opportunities.

Please consider an agreement on the intermediate switch charges as follows:

- Five (5) or less cars* a charge of \$100.00 per car each way (in and out).
- More than five (5) cars* a charge of \$85.00 per car each way (in and out)

*Note "cars" as used above includes freight cars, passenger cars, baggage cars, MOW equipment, cabooses, and locomotives.

After we achieve agreement on the charges then I would like for us to join together with CSX to publish joint tariffs or contracts that would include both of our switch fees as part of the CSX rate. Kindly let me know if this would be acceptable to you.

Sincerely,

William E Gray
President



"Ship OVR the route of friendly service"